

# **POSTAL RATE COMMISSION**



## **PRESS BRIEFING**

**POSTAL RATE AND FEE CHANGES, 1997**

**DOCKET NO. R97-1**

**MAY 11, 1998**



# POSTAL RATE COMMISSION

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### **PRESS BRIEFING ON THE 1997 OMNIBUS RATE PROCEEDING**

**Commission Hearing Room  
1333 H Street, N.W. Suite 300  
Washington, D.C.**

**May 11, 1998**

Press Release, "Postal Rate Commission Slashes One-Third From \$2.4 Billion Rate Hike Requested by Postal Service."

Statement by Edward J. Gleiman, Chairman, Postal Rate Commission

Charts On Display:

1. Contribution To Institutional Costs (Pie Chart)
2. Percentage Rate Increases
3. Selected Rates Used By Nonbulk Mailers

Other Charts in Press Package:

1. History of Postal Rate Increases
2. Bar Chart of Recommended Rate Increases
3. First Class Stamp and Consumer Price Index
4. Selected Rates Used by Bulk/Business Mailers

Decision Summary and Introduction  
Postal Rate Commission History  
Biographies of Commissioners



# POSTAL RATE COMMISSION

## FOR IMMEDIATE RELEASE • MAY 11, 1998

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**EMBARGOED UNTIL 10:30 AM**

**Contact: Robert Cohen; Stephen Sharfman**

**May 11, 1998**

### **Postal Rate Commission Slashes One-Third From \$2.4 Billion Rate Hike Requested by Postal Service; Sees No Reason to Raise Rates Until 1999**

WASHINGTON - The Postal Rate Commission announced today that it has slashed by nearly one-third the \$2.4 billion increase sought by the U.S. Postal Service in its July, 1997 proposal for higher postal rates.

The cut largely reflects the benefits of lower-than-expected inflation since the Postal Service filed its request last July. The Commission believes that with a year-to-date surplus of more than \$1.3 billion, the Service seriously misestimated its need for a rate hike and is unlikely to incur the \$1.4 billion loss it predicted for FY 1998.

Commenting on this financial turn-around and the Service's original plan to raise rates this June, Rate Commission Chairman Edward J. Gleiman said "the Commission sees no reason why any of the rate changes it is recommending today should be put into effect before January,

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**Decision available at [www.prc.gov](http://www.prc.gov)**

1999, at the earliest.” The Commission attributed the Postal Service’s healthy finances to the strong economy and lower than anticipated expenditures.

Nonetheless, the Commission is “reluctantly” granting the Postal Service request to raise the price of the First-Class stamp from the present 32 cents to 33 cents. The Commission said its approval to increase the First-Class stamp price was governed largely by nonnegotiable realities. For example, the First-Class Stamp used by individual mailers must change in whole cent increments, and each one-cent increase in the First-Class stamp generates \$1 billion in revenue.

“To leave the First-Class stamp price unchanged would have triggered unjustifiably large rate increases for all other types of mail, with potentially serious economic consequences for mailers and the Postal Service,” Gleiman said.

Today’s omnibus rate decision does benefit individual mailers in several ways:

- **Post Cards** -- The Commission rejected the Postal Service proposal to increase the price of post cards from 20 cents to 21 cents.
- **"Extra Ounce Rate"** -- The Commission lowered the "extra ounce rate" used to mail heavier First-Class mail, such as wedding invitations and multi-page letters from 23 to 22 cents.
- **Registered Mail and Return Receipt Services** -- The Commission cut by more than half the Postal Service’s proposed increases of 51.2 percent for registered mail, 31.8 percent for return receipt service, and 14.8 percent for certified mail.
- **Courtesy Envelope Mail (CEM)** -- Once again the Commission recommended that the Governors establish a rate for preprinted envelopes used in paying bills that would provide a direct benefit from postal service automation to individual mailers. The Commission provided the \$33 million that the Postal Service said it would need to prepare the public regarding this proposal.

Other highlights of today's Commission decision reflect more cost-based rates than the July rates proposed by the Postal Service.

- **Parcel Post** -- The Commission recommended an average increase of 12.3 percent, having concluded that the Service's proposed 9.2 percent Parcel Post rate increase would fail to cover that category's actual cost and make a reasonable contribution to overhead costs, as required by law. In addition, the Commission approved a number of new discounts for commercial users of Parcel Post as proposed by the Postal Service.
- **Periodicals** -- The Commission also encountered a cost-coverage problem in Periodicals mail (magazines, newspapers), which resulted in an increase seven-tenths percent higher than the Service proposal of 3.9 percent.
- **Advertising Mail** -- The advertising mail rates proposed by the Postal Service were cut by approximately one-third to reflect the shared benefits of the lower-than-projected inflation and the 1997 revenue surplus.
- **Library Material** -- The Service sought a 13.1 percent increase on top of an almost 70 percent increase three years ago. Here the Commission recommended only a 3.9 percent increase.
- **Non-profit Fundraising Mail and Mailing Local Newspapers** -- The Commission adjusted downward Postal Service proposed rate increases.
- **Special Handling** -- The Commission deleted completely the Postal Service request to increase by 221 percent rates for special handling. Special handling is used by small farmers who transport baby chicks, bees, beetles, worms and other small creatures via the mails.
- **Post Office Box Rental Fees** -- The Commission halved the 50 percent increase requested for rural post office box rentals. During the case the Service implemented an earlier Commission recommendation that free post office boxes be provided in small towns where street delivery was not otherwise available.

According to Gleiman, this rate case "was the most technically complex case ever filed by the Postal Service." During the 10-month statutory review period, 84 parties, including two private citizens, participated in the case. Testimony presented during seven weeks of hearings

was heard from 111 expert witnesses, who sponsored 156 pieces of testimony and 449 supporting references.

Complicating an already challenging case was the finding earlier this year that the Service's financial projections and underlying cost data from 1996 were outdated and contained what appeared to be serious computational errors, stemming in part from a recent major change in the categories and processing of mail.

In an effort to correct this situation, the Commission proposed to the Governors in February, 1998, that soon-to-be-available data reflecting 1997 costs be substituted for the 1996 figures, noting that a slight delay in issuing the current decision would be far outweighed by the benefits to the mailing community of fairer and more equitable rates. In a response reflecting a preference for form over substance, the Governors rejected this proposal and reminded the Commission that it was obligated to complete the case in 10 months.

The Commission's recommended decision now goes to the Governors of the Postal Service for their consideration.

\* \* \*

The Rate Commission is composed of five presidentially-appointed Commissioners, each confirmed by the Senate for a six-year term. Four Commissioners participated in the R97-1 decision: Chairman Edward J. Gleiman; Vice-Chairman George W. Haley, and Commissioners W. H. "Trey" LeBlanc and George Omas. The fifth sitting Commissioner, Ruth Y. Goldway, was sworn in on April 15, 1998 and did not participate in the decision.

# # #



# POSTAL RATE COMMISSION

## STATEMENT OF THE CHAIRMAN

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Good morning ladies and gentlemen. I am pleased that you could join us today. I am Ed Gleiman, Chairman of the Postal Rate Commission. With me today are Vice Chairman George Haley---Commissioner Haley, as some of you may know, has recently been nominated by the President to be Ambassador to The Gambia---Commissioners Trey LeBlanc, George Omas and Ruth Goldway. Commissioner Goldway, who arrived just a few weeks ago, bears no responsibility for our recommendations today.

The press package that was distributed earlier contains the summary and selected excerpts from the Commission's Recommended Decision, and copies of charts we have here in the front of the room, plus some additional background material. The decision was transmitted to the Governors of the Postal Service and the Postmaster General a short while ago and has been posted on the Commission's web site at [www.prc.gov](http://www.prc.gov).

Rate cases are generally quite complex. This case was no exception. As a matter of fact, by most accounts, it is the most technically complex case ever filed by the Postal Service; so much so, that we had to schedule an additional round of written discovery and hearings in order to provide intervenors with an opportunity to more thoroughly understand the Postal Service's proposals.

All participants, including the Postal Service, were cooperative throughout our proceeding and helpful in developing the evidentiary record on which our recommendations are based. I want to express my personal appreciation and that of the Commission to them.

I also want to thank the staff of the Postal Rate Commission---a small, dedicated group---for an extraordinary effort in analyzing the 156 pieces of testimony, 449 library reference support documents, and thousands of pages of hearing transcripts offered up by the 111 different expert witnesses and 84 parties to this case.

The law provides that the Postal Service may, from time to time, request that the Postal Rate Commission recommend "rates and fees [that] shall provide sufficient revenues so that the total estimated income...to the Postal Service will equal as nearly as practicable total estimated costs of the Postal Service." This is known as the "break

even requirement.”

Last July, the Postal Service filed what is purported to be such a request, seeking increased rates and fees to provide an additional \$2.4 billion, annually. Without this additional revenue made possible by a rate hike that the Service originally scheduled for June, 1998 ---less than one month from now---the Postal Service claimed that it would hemorrhage red ink in fiscal year 1998 to the tune of \$1.4 billion.

This request was filed against the financial backdrop of an almost \$1.8 billion surplus in 1995 and an approximately \$1.5 billion surplus in 1996. The surplus for 1997, projected at slightly more than \$600 million at the time the Service filed this rate increase request, turned out to be double that amount---\$1.2 billion.

And what about all that talk of red ink for this year? Well, at the 1998 fiscal year halfway mark the Service has rolled up a net operating surplus of more than \$1.3 billion. This is several hundred million dollars more than it had in its coffers at the same point last year!

The Commission believes that the Postal Service is unlikely, in the absence of either the economy going into a free fall, a spending binge or some very creative accounting, to incur any of the \$1.4 billion loss it projected for FY1998. We believe the Service may have seriously misestimated its need for a rate hike.

In addition to this financial picture, the Postal Service supported its rate hike request with projections of costs and revenues based on 1996 data. As the case progressed, the Commission discovered that this data did not accurately reflect the impact on current postal operations of classification changes implemented during the last quarter of 1996. This, combined with lower inflation (and therefore costs) than anticipated in the Service's request, led the Commission in February of 1998 to propose to the Governors of the Postal Service that they provide more recent and representative 1997 data to allow the development of more fair and equitable cost-based postal rates.

In a response we believe reflects a preference for form over substance, and which works to the detriment of the mailing public, the Governors rejected our proposal and reminded us of the Commission's obligation to complete rate case reviews in ten months.

So here we are, with the request and out-of-date supporting material filed by the Postal Service last summer.

The law does not permit us to substitute our judgment for that of the Postal Service Board of Governors on matters of agency management. Consequently, while we do not believe, given its strong financial situation, that the Service needs to raise rates to

"break even" in fiscal year 1998, we may not second guess them and send the request back. We can, however, recognize and account for "known and certain" changes that have occurred since the request was filed; this we have done.

The Commission today recommends rates that reflect a cut of almost one-third of the \$2.4 billion of additional revenue sought by the Postal Service.

This adjustment to the revenue requirement corrects Postal Service overestimates of the impact of inflation on its costs; it corrects for computational errors and the failure to reflect fully the savings from cost reduction programs; and, it recognizes the impact of recent operating surpluses on the recovery of prior years' losses.

Now, before I get to the rates we recommend, based on the recalculated revenue requirement, I need to make an important point. While the decision rests with the Board of Governors, my colleagues and I see no reason why any increases should be put into effect before January of 1999, at the earliest! This is especially so, given the strength of the economy and the upswing in mail volume that traditionally begins in late summer.

The Commission is "reluctantly" granting the Postal Service request to raise the price of the First-Class stamp from the present 32 cents to 33 cents. Our decision here was governed largely by nonnegotiable realities. For example, the First-Class Stamp used by individual mailers must change in whole cent increments, and each one-cent increase in the First-Class stamp generates \$1 billion in revenue.

To leave the First-Class stamp price unchanged would have triggered unjustifiably large rate increases for all other types of mail, with potentially serious economic consequences for mailers and the Postal Service.

However, today's omnibus rate decision does benefit individual mailers in several ways. For example:

- The Commission rejected the Postal Service proposal to increase the price of post cards from 20 cents to 21 cents.
- We lowered the "extra ounce rate" used to mail heavier First-Class mail, such as wedding invitations and multi-page letters from 23 to 22 cents.
- Cut by more than half were the Postal Service's proposed increases of 51.2 percent for registered mail, 31.8 percent for return receipt service, and 14.8 percent for certified mail.

- We once again recommend that the Governors establish a rate for preprinted envelopes used in paying bills that would provide a direct benefit from postal service automation to individual mailers. The Commission provided the \$33 million that the Postal Service said it would need to prepare the public regarding this proposal.

In other areas:

- On Parcel Post, the Commission recommended an average increase of 12.3 percent, having concluded that the Service's proposed 9.2 percent Parcel Post rate increase would fail to cover that category's actual cost and make a reasonable contribution to overhead costs, as required by law. In addition, we approved a number of new discounts for commercial users of Parcel Post as proposed by the Postal Service.
- We also encountered a cost-coverage problem in Periodicals mail (magazines, newspapers), which resulted in an increase seven-tenths percent higher than the Service proposal of 3.9 percent.
- The advertising mail rates proposed by the Postal Service were cut by approximately one-third to reflect the shared benefits of the lower-than-projected inflation and the 1997 revenue surplus.
- For Library material, the Service sought a 13.1 percent increase on top of an almost 70 percent increase three years ago. Here the Commission recommended only a 3.9 percent increase.
- The Commission adjusted downward Postal Service proposed rate increases for non-profit fundraising mail and mailing local newspapers.
- The Postal Service request to increase by 221 percent rates for special handling was rejected. Special handling is used by small farmers who transport baby chicks, bees, beetles, worms and the like via the mails.
- And, finally, the Commission halved the 50 percent increase requested for rural post office box rentals. During the case the Service implemented an earlier Commission recommendation that free post office boxes be provided in small towns where street delivery was not otherwise available.

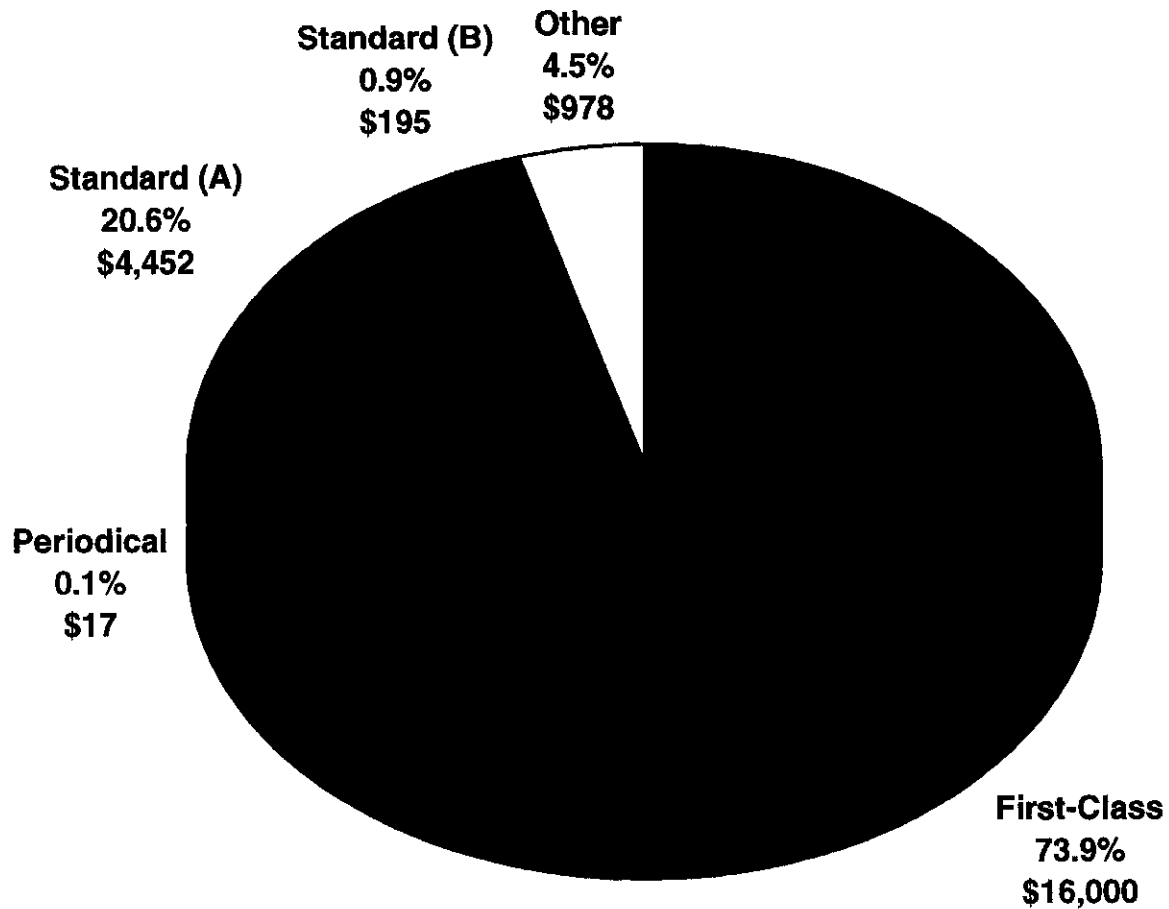
That concludes my statement. My colleagues and I will try to answer questions you may have. Following the press conference, our General Counsel, Steve Sharfman, and Bob Cohen Director of our technical staff will be available for questions.

# Contribution To Institutional Costs

## R97-1

(Dollars in Millions)

**Total Contribution to Institutional Cost: \$21,652**



	% Volume	% Revenue	% of Cost Contribution
First-Class <sub>1</sub>	52.6%	63.4%	73.9%
Periodicals	5.3%	3.5%	0.1%
Standard (A)	40.9%	22.7%	20.6%
Standard (B)	0.5%	2.7%	0.9%
Total	99.3%	92.4%	95.5%

1/ Includes Priority Mail

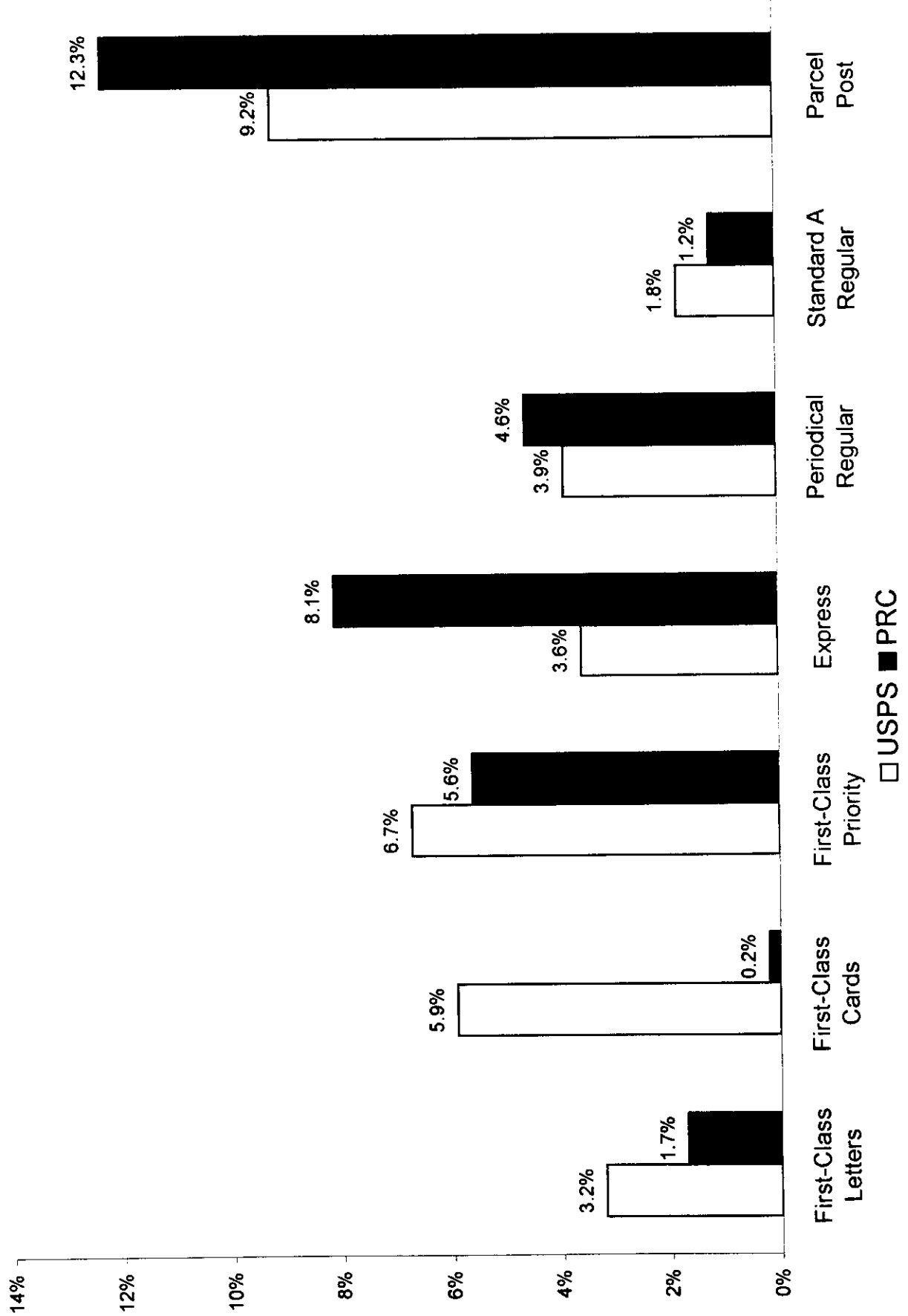
## PERCENTAGE RATE INCREASES

<u>Mail Category</u>	<u>USPS Proposed Rate Increase</u>	<u>PRC Recommended Rate Increase</u>
<b>First Class:</b>		
Letters	3.2%	1.7%
First ounce	3.1%	3.1%
Additional ounce	0.0%	-4.3%
Nonstandard surcharge-single piece mail	45.5%	0.0%
Cards	5.9%	0.2%
Priority	6.7%	5.6%
<b>Express Mail</b>	3.6%	8.1%
<b>Periodicals:</b>		
In-County	1.9%	1.1%
Regular	3.9%	4.6%
Nonprofit	3.6%	8.0%
<b>Standard A:</b>		
Commercial Regular	1.8%	1.2%
Commercial Enhanced Carrier-Route	3.0%	2.2%
Nonprofit	11.3%	9.6%
Nonprofit Enhanced Carrier-Route	-6.3%	-10.4%
<b>Standard B:</b>		
Parcel Post	9.2%	12.3%
Bound Printed Matter	5.0%	5.0%
Special	-0.4%	-9.7%
Library	14.4%	3.7%
<b>Special Services:</b>		
Registered Mail	51.2%	24.6%
Insured Mail	16.4%	9.5%
Certified Mail	14.8%	3.7%
Money Orders	0.0%	-4.9%
Special Handling	221.0%	0.0%
Post Office Boxes	17.7%	10.7%
Return Receipts	31.8%	13.6%

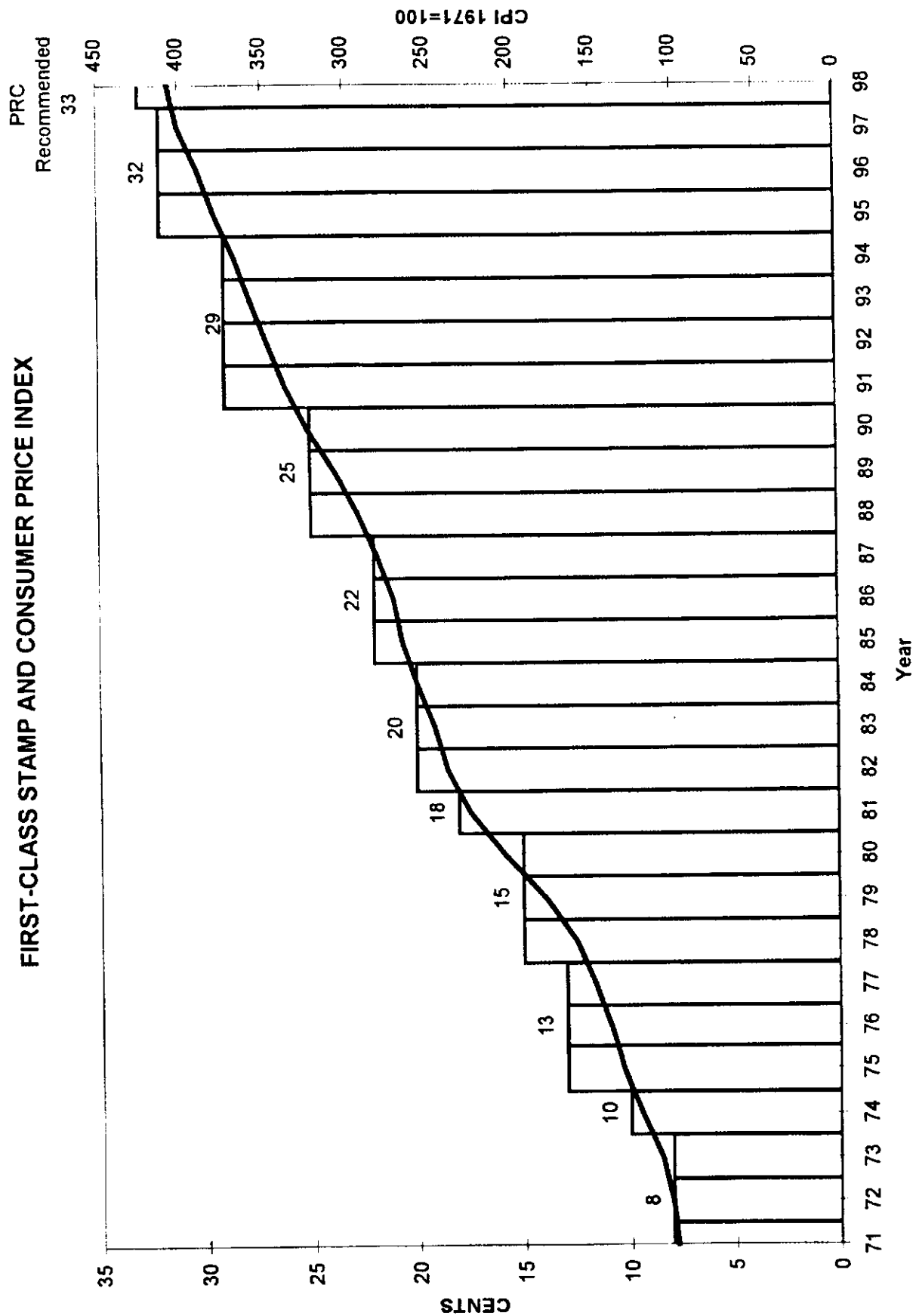
## SELECTED RATES USED BY NONBULK MAILERS

	<u>Current</u>	<u>USPS Proposed</u>	<u>PRC Recommended</u>
<b>First-Class Letter</b>			
First Ounce	32¢	33¢	33¢
Additional Ounce	23¢	23¢	22¢
<b>Post Card</b>	20¢	21¢	20¢
<b>Priority</b>			
(2 lbs. and under)	\$3.00	\$3.20	\$3.20
<b>Express Mail</b>			
(8 oz. letter rate P.O. to addressee)	\$10.75	\$11.25	\$11.75
<b>Parcel Post - Inter BMC</b>			
(3 lbs., zone 5)	\$3.68	\$4.35	\$4.25
<b>Certified Mail</b>	\$1.35	\$1.55	\$1.40
<b>Return Receipt</b>	\$1.10	\$1.45	\$1.25
<b>Insured Mail</b>	\$0.75	\$0.95	\$0.85
(Up to \$50)			
<b>Registered Mail</b>	\$5.40	\$8.15	\$6.75
(\$100.01 - \$500)			
<b>Money Orders</b>	\$0.85	\$0.85	\$0.80

# Recommended Rate Increases



# FIRST-CLASS STAMP AND CONSUMER PRICE INDEX



NOTE: In 1981 the rate increased twice, once in March 1981 to 18 cents then in November 1981 to 20 cents.

## SELECTED RATES USED BY BULK/BUSINESS MAILERS

	<u>Current</u>	<u>USPS Proposed</u>	<u>PRC Recommended</u>
<b>First-Class Letter</b>			
Bank Statement (3 oz.)	78.0¢	79.0¢	77.0¢
Department Store Bill (Non-automation presort)	29.5¢	31.0¢	30.5¢
Utility Bill (Automation 5-Digit)	23.8¢	24.9¢	24.3¢
<b>Post Card</b>			
(Automation 3-Digit)	15.9¢	17.0¢	15.9¢
<b>Priority</b>			
(3 lbs.)	\$4.00	\$4.40	\$4.30
(10 lbs., zone 4)	\$9.30	\$9.75	\$8.75
<b>Express Mail</b>			
Legal Documents (2 lbs.)	\$15.00	\$14.95	\$15.75
<b>Periodicals</b>			
Within County Newspaper (4 oz., carrier route presort, delivery unit entry)	7.0¢	6.9¢	6.6¢
<b>Regular Rate Publications</b>			
Journal of Opinion (3 oz., 20% advertising, average preparation)	19.8¢	20.7¢	20.8¢
Weekly News Magazine (4.8 oz., 43% advertising, highly prepared)	15.8¢	16.5¢	16.2¢
Large National Monthly (11.2 oz., 57% advertising, highly prepared)	26.5¢	27.3¢	27.0¢
<b>Nonprofit</b>			
Small Publication (4 oz., 20% advertising, zone 5, basic)	26.2¢	28.9¢	29.8¢
National Magazine (14 oz., 60% advertising, zone 5, carrier route presort)	31.0¢	32.6¢	33.4¢

# SELECTED RATES USED BY BULK/BUSINESS MAILERS

	<u>Current</u>	<u>USPS Proposed</u>	<u>PRC Recommended</u>
<b>Standard (A) Regular Rate Mail</b>			
Very Selective Advertising (Required presort, 2 oz. letter, prebarcoded)	18.3¢	18.9¢	18.3¢
Selective Catalog (5-Digit presort, 8 oz. flat)	42.4¢	43.1¢	43.9¢
Local Department Store Advertisement (5-Digit presort, 2 oz flat, SCF entry)	20.7¢	22.2¢	21.9¢
Saturation Local Mail (Carrier route walk sequence presort, 3 oz. flat, delivery office entry)	11.4¢	11.8¢	11.4¢
<b>Standard (A) Nonprofit Mail</b>			
Fund Raising Letter (Required presort, 1 oz.)			
	Full 13.8¢	16.5¢	16.9¢
	Step 5 13.5¢	16.0¢	16.5¢
Church Bulletin (5-Digit presort, flat)			
	Full 14.9¢	17.6¢	16.5¢
	Step 5 14.9¢	17.1¢	16.1¢
<b>Standard (B)</b>			
Parcel Post (2 lbs. to zone 1, entered at DBMC)	\$2.10	\$2.01	\$2.23
Special Fourth Class Rate (2 lbs., presorted to BMC)	\$1.54	\$1.63	\$1.40
Bound Printed Matter (2.5 lbs., zone 3)	85.8¢	91.5¢	90.3¢
Library Rate (3 lbs.)	\$1.96	\$2.48	\$2.03

## History of First-Class Stamp Rates

Date	Cost
1885-1917	0.02
1917-1919	0.03 War Years
April 2, 1905	0.02
Dropped by Congress	
July 6, 1932	0.03
Aug. 1, 1958	0.04
Jan. 7, 1963	0.05
Jan. 7, 1968	0.06
May 16, 1971	0.08
March 2, 1974	0.1
Dec. 31, 1975	0.13
May 29, 1978	0.15
March 22, 1981	0.18
Nov. 1, 1981	0.2
Feb. 17, 1985	0.22
Apr. 3, 1988	0.25
Feb. 3, 1991	0.29
Jan. 1, 1995	0.32



# POSTAL RATE COMMISSION

## DECISION EXCERPTS

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## RECOMMENDED DECISION

## APPENDIX ONE

## APPENDIX TWO

## ABBREVIATIONS AND ACRONYMS

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## TECHNICAL APPENDICES

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# POSTAL RATE COMMISSION

## SUMMARY OF DECISION • R97-1

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Since the Commission last recommended rate increases, the Postal Service has experienced unprecedented operating surpluses totaling \$4.6 billion. These surpluses have continued to grow, even since the Postal Service filed its Request on July 10, 1997. The most recent information available to the Commission indicates that the Postal Service had an additional net operating surplus of more than \$1.3 billion in the first half of Fiscal Year 1998, a larger surplus than it generated during the same six months of 1997.

The Postal Service has requested rate increases designed to produce additional net revenues of \$2.4 billion annually. The Postal Service supported its request with projections of costs and revenues based on Fiscal Year 1996 data. These data do not fully reflect the impact of mail classification reforms that the Service started to implement in the fourth quarter of that year. When it became apparent that the Service had failed to forecast accurately its operating surpluses, and was not in immediate need of additional funds, the Commission attempted to initiate a cooperative procedure designed to allow rates to reflect more recent actual operating results.

The Commission wrote to the Chairman of the Postal Service Board of Governors suggesting that the Board provide the Commission with actual Fiscal Year 1997 data for incorporation into its decision. This more recent and representative data would have allowed the development of fairer and more equitable, cost-based rates. The Commission proposed to provide rate recommendations approximately three months after receiving these data.

The Governors indicated that it was their preference that the Commission complete its analysis without delay, even if that meant foregoing the use of information that would more accurately reflect operating realities. The Commission has done so. Nonetheless,

the Commission considers it unfortunate that the two agencies were not able to cooperate in an action that would have ameliorated many of the concerns raised on the current record. The correspondence between the Commission and the Governors is provided as Appendix L to this decision.

*Adjustments to Projected Expenses.* The Commission's recommendation reduces the Service's \$2.4 billion request by approximately \$745 million. The largest adjustment to the revenue requirement corrects Postal Service overestimates of the impact of inflation on its costs (such as cost-of-living wage adjustments). Another large correction accepts a party's evidence that the Service failed to reflect some savings it will obtain from cost reduction and other programs. The Commission also has recognized that because the Service failed to anticipate the size of its 1997 operating surplus, the annual revenue earmarked for the recovery of prior years' losses can be reduced by \$70 million.

The Postal Service attempted to buttress its original estimate of a \$1.4 billion operating loss in 1998 by claiming near the conclusion of this case that it would spend \$300 million more than initially projected on three discretionary programs (e.g. automated data processing). The Commission found this forecast too speculative to include in the Service's revenue requirement. The table below sets out the Commission changes to the Service's requested revenue requirement.

<b>Adjustments to USPS Projected FY 98 Revenue Requirement</b>	
(in millions of dollars)	
Postal Service revisions and acknowledged corrections	-67
Overestimates of the impact of inflation	-511
Correction of cost reduction and other programs estimates	-101
Attribution adjustments	+28
Miscellaneous adjustments	-24
Prior Years' Losses update	-70
<b>Total</b>	<b>-745</b>

Although the Postal Service currently is enjoying operating surpluses, the Commission recommends a one-cent increase in the price of a First-Class letter, and similar small changes to the rates applicable to other categories of mail. These changes will provide added funds to enable the Postal Service to proceed with its plans to spend \$5.6 billion on equipment and service enhancement programs in the 1998 fiscal year. The Commission notes, however, that the record developed in this case indicates that the Postal Service has not yet initiated fully this massive spending program. The Commission joins the many mailers that have participated in this proceeding in urging the Governors of the Postal Service to delay increasing rates until additional revenues are needed to offset actual (as opposed to planned) expenditures.

The following table compares rates requested by the Postal Service with rates recommended by the Commission:

	Average Percent Increase Requested	Average Percent Increase Recommended
First-Class letters	3.2	1.7
First-Class cards	5.9	0.2
Priority Mail	6.7	5.6
Express Mail	3.6	8.1
Periodicals	3.9	4.6
Advertising Mail (regular)	1.8	1.2
Advertising Mail (saturation)	3.0	2.2
Parcel Post	9.2	12.4
Special (books & music)	(0.4)	(9.6)

The small size of the rate changes the Commission recommends should not mask the importance of the issues addressed in this proceeding. This has been the most technically complex case ever faced by the Commission. The Postal Service and participants have presented numerous suggested improvements to the existing methods of costing and pricing postal services.

The Service proposed a new econometric analysis of mail processing which would have shifted a total of \$3.7 billion of mail processing and associated costs from attributable to institutional (overhead) cost. It proposed a new, more accurate method for distributing mail processing costs to the classes of mail. It presented a new and pioneering analysis of incremental costs which are used in the economic literature to test for cross subsidy. The Service's presentation advanced the state of knowledge in all these areas. On the record before it, the Commission finds inadequate support for the proposed change in mail processing attribution. It hopes and expects the Service and parties to continue to explore this important area. Extensive effort also was put forth by the Service and the parties to analyze several other complex issues that allowed the Commission to refine the attribution of delivery and transportation costs.

Reclassification of Standard B (parcel mail) was also dealt with in this proceeding. This was the fourth in a series of reclassification proposals by the Postal Service designed to better align rates with costs and to enable the Service to compete more effectively. The Commission accepted the Service's proposals to institute new worksharing discounts and to deepen existing ones based largely on new analyses of transportation costs.

## I. INTRODUCTION

[1001] *Procedural history.* The Postal Service filed a request for a recommended decision on proposed changes in rates, fees, and classifications on July 10, 1997. The Commission's Notice and Order No. 1186 (July 11, 1997) provided public notice of the Service's request; instituted formal proceedings; and designated W. Gail Willette, director of the Commission's Office of the Consumer Advocate, as the representative of the general public. See *generally* 62 FR 39660-39709 (July 11, 1997). In addition to the Service and the OCA, 82 intervenors participated.

[1002] Commission Chairman Edward J. Gleiman acted as presiding officer. The Commission, sitting *en banc*, held 37 days of evidentiary hearings on the testimony of 111 witnesses. The Commission requested trial briefs from parties, in addition to initial briefs (filed April 1, 1998) and reply briefs (filed April 10, 1998). No participants requested oral argument.

[1003] In the course of the proceeding, the Presiding Officer issued 19 Information Requests, and the Commission issued five Notices of Inquiry. Notice of Inquiry No. 1 (September 17, 1997) addressed the evidentiary status of library references. Notice of Inquiry No. 2 (November 19, 1998) addressed Domestic Mail Classification Schedule (DMCS) issues. Notice of Inquiry No. 3 (January 12, 1998) invited comments on the Service's proposals to redefine a component of load time as access time and to make other changes in the way remaining coverage-related load time is analyzed. Notice of Inquiry No. 4 (January 16, 1998) addressed the statistical support for an assumption in Postal Service witness Bradley's mail processing variability model. Notice of Inquiry No. 5 (January 28, 1998) raised issues related to the recognition of interim year financial results.

[1004] *Significant procedural issues: compliance with recently revised rule 54(a).* This proceeding is the first conducted since amendment of Commission rule 54(a)

requiring the Postal Service to provide additional information when it supports a rate request with cost projections using attribution methodologies that differ from those used in the previous rate decision. A series of rulings addressed concerns about the adequacy of the Service's compliance with the new rule. The rulings generally recognized the Service's preliminary attempts to satisfy its obligations under the rule, but noted the need for certain corrections and supplementation in this proceeding. They also signaled the Commission's interest in avoiding future controversies. Specifically, the presiding officer noted: "With advance knowledge of the obligation of rule 54(a), there will be no reason for the Service to have difficulty meeting this requirement [of a satisfactory representation of base year and test year costs] in a timely fashion. Furthermore, the table of relative markups, while not specifically required . . . , would be a very helpful indication of the effect of variations from established attribution methodologies." P.O. Ruling R97-1/8 at 5 (August 25, 1997).

[1005] *Sponsorship of Postal Service Library References.* The Postal Service's decision to file certain studies and their results, detailed data, and other information on which its proposals rely as library references—rather than as testimony or exhibits sponsored by its witnesses—has significantly complicated the procedural course of this docket. Several participants, in the exercise of their due process rights under 39 U.S.C. § 3624(a), directed discovery requests to the Postal Service regarding some of these materials, only to receive responses expressing unfamiliarity with, or outright disavowal of any role in the preparation or sponsorship of, the library reference under scrutiny. Responses of this kind led several participants to seek relief from the Presiding Officer in the form of motions to compel responses to discovery requests, motions to strike portions of the testimony of Postal Service witnesses, and motions to stay or extend the proceeding. Motions of this nature were filed by Alliance of Nonprofit Mailers and American Library Association; Nashua Photo, Inc., District Photo Inc., Mystic Color Lab, and Seattle Filmworks (collectively, NDMS); and Newspaper Association of America. A number of other participants filed pleadings in support of the various requests for relief.

[1006] The Presiding Officer, and the Commission as a whole, undertook to address these requests for relief by the parties, to clarify the evidentiary status of the Postal Service's library references at issue, and to accommodate the procedural schedule to the parties' exercise of their due process rights. These efforts imposed a considerable demand on the Commission's resources, and made achievement of an already exacting statutory deadline more difficult.

[1007] Presiding Officer's Ruling R97-1/20, issued September 17, 1997, found that the Postal Service had failed to meet the evidentiary standards of the Commission's rules by submitting an unsponsored library reference upon which it intended to rely, and allowed the Service one week to identify a sponsor for the study, if desired. Realizing the potentially broad impact of P.O. Ruling R97-1/20, the Commission issued Notice of Inquiry No. 1 on Interpretation of Commission Rules Authorizing the Use of Library References on the same date. Participants were asked to identify and comment on other instances where the Service had improperly failed to designate as evidence material filed as library references. In response, intervenors identified five other library references that they contended should have been sponsored by a Postal Service witness.

[1008] On September 25, 1997, the Postal Service announced that its witness Daniel had prepared Library Reference H-112, and it provided supplemental testimony [ST-43] in which she would sponsor it as evidence. Presiding Officer's Ruling R97-1/38, issued October 3, 1997, scheduled receipt of this supplemental testimony on the date already established for witness Daniel to present her testimony in USPS-T-29. In response to Presiding Officer's Ruling R97-1/42, issued October 10, 1997, the Postal Service subsequently indicated that it was prepared to sponsor as evidence numerous other library references that contained analyses relied on by its witnesses.

[1009] The Postal Service began offering library references for admission into evidence during the evidentiary hearings scheduled to receive its direct case, commencing October 6, 1997. A number of participants contended that they had not had adequate notice to prepare full cross-examination on these documents. The Postal Service contended that the proffered library references had been prepared by the

witnesses in support of their testimony, and that a full opportunity for discovery on these library references had been provided to the objecting parties, many of whom had taken the opportunity to pose numerous questions concerning these library references.

[1010] The Presiding Officer admitted sponsored library references into the record, subject to motions for procedural relief to be submitted by October 16, 1997. On that date, three related motions were filed by intervenors contesting the admission of library references.<sup>1</sup> These motions were certified to the Commission in P.O. Ruling R97-1/49 on October 17, 1997. By Order No. 1198, issued the same day, the Commission accepted certification of these rulings. To minimize delay during the consideration of these matters, the Commission advised participants in Order No. 1200 that written discovery on materials identified by the Postal Service in response to P.O. Ruling R97-1/42, *supra*, was permitted as of the date of that order's issuance, October 27, 1997.

[1011] In Order No. 1201, issued November 4, 1997, the Commission found merit in the parties' arguments that the Postal Service's conduct with respect to certain library references it had filed worked to the detriment of their due process rights, but concluded that staying the proceeding, or refusing to consider evidence premised on the library references at issue, was unwarranted. Order No. 1201 at 12. That order also found that the Service's conduct had thereby caused delay that would jeopardize the Commission's ability to issue a recommended decision within 10 months, as required by 39 U.S.C. § 3624(c)(1). *Id.* at 2, 19-20. Nevertheless, in an effort to allow participants to exercise fully their due process rights while striving to achieve the statutory deadline, the Commission decided to admit the controversial materials into the record, but also to direct the Presiding Officer to schedule an additional period for written discovery on

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<sup>1</sup> Motion of Alliance of Nonprofit Mailers and American Library Association to Stay Proceedings, filed October 16, 1997; Nashua Photo Inc., District Photo Inc., Mystic Color Lab and Seattle Filmworks, Inc. Motion to Strike Specific Portions of the Testimony of Various Postal Service Witnesses and Certain Library References and For Other Relief, filed October 16, 1997; and Newspaper Association of America Motion in Opposition to Admission Into Evidence of Certain Library Reference Materials and Supplemental Testimony USPS-ST-44, filed October 16, 1997.

these materials, and hearings for the purpose of conducting oral cross-examination of sponsoring witnesses. *Id.* at 18-20. The Commission also announced its intention to initiate a rulemaking to evaluate potential improvements in the pertinent sections of the rules of practice concerning library references following the conclusion of this docket. *Id.* at 2.

[1012] In accordance with Order No. 1201, P.O. Ruling R97-1/54, issued on the same date, adopted a revised procedural schedule for the remainder of the case. The Presiding Officer noted therein that, as a consequence of providing for additional discovery and hearings, the date for filing each participant's case-in-chief, including rebuttal to the Postal Service, was thereby delayed by six weeks. *Id.* at 2. The result of these adjustments to accommodate the due process rights of participants has been a significantly shortened period for the Commission's deliberations in this highly complex omnibus rate proceeding.

[1013] *Access to the Postal Service Disqualification Logs.* Another procedural due process issue arose during ANM's efforts to determine whether the Postal Service properly allocated costs to the nonprofit subclasses when setting the proposed rates. ANM and its expert witness, Dr. John Haldi, theorized that the increase in nonprofit costs was due primarily to a mismatch between the Service's RPW (volume) and IOCS (cost) data for mail bearing nonprofit indicia of postage, but entered at commercial rates or later charged back postage based on commercial rates.

[1014] To this end, ANM served the Postal Service with a set of interrogatories on December 9, 1997 requesting, among other things, that the Service quantify the amount of mail bearing Standard A nonprofit indicia but charged commercial rates during a certain time period. The Service objected to several of the questions on the basis of timeliness and undue burden. It maintained that a complete response to the information sought "would require the Postal Service to survey every point at which business mail may be entered, in order to review each mailing statement for a two-year period." Objection of United States Postal Service to Interrogatories of the Alliance of Nonprofit Mailers (ANM/USPS-20-23, and 25-26) (December 19, 1997).

[1015] ANM then filed a motion to compel responses, claiming that the interrogatory answers would relate to operating procedure and data available only to the Service. The Service opposed for its earlier reasons, and further argued that the RPW and IOCS information sought could have been obtained by discovery on the testimony filed initially by the Service on July 10, 1997. The Service also maintained that certain ANM questions actually requested new information requiring extensive Service research and analysis of data available only from "the field."

[1016] On January 9, 1998, the Presiding Officer issued a ruling that granted in part ANM's motion, and compelled the Service to provide general information such as its accounting treatment of mail marked as Standard A nonprofit but assessed commercial rates, as well as its instructions to tally takers on this issue. P.O. Ruling R97-1/86 at 8-9. However, the Presiding Officer agreed with the Service that compelling answers to those ANM questions asking for extensive detail on nonprofit mail that ultimately paid commercial rates would impose a significant burden on the Postal Service, and that the questions were not likely to generate probative evidence. *See id.* at 7-8. Additionally, the underlying information requested by ANM focused on the Service's data systems and their outputs, which was the subject of extensive testimony in the Service's direct case. *Id.* at 7. The Commission affirmed this ruling. *See* PRC Order No. 1207 (February 9, 1998).

[1017] Consequently, ANM conducted its own limited study of nonprofit mailers to determine the extent of the mismatch problem. *See* Chapter 5, Section C.10. for details. According to ANM witness Haldi, the survey results indicated that 7.85 percent of mail entered with nonprofit markings actually paid commercial rates. He thus recommended a 7.85 percent shift of total attributable costs from the Standard A nonprofit subclasses to their commercial subclass counterparts.

[1018] The Postal Service disputed ANM's findings, and undertook a study to assess any mismatched nonprofit costs and mail volume. Postal Service rebuttal witness Schenk surveyed 30 post offices selected from the universe of sites with Standard A nonprofit bulk permit imprint revenues in FY1996. She quantified the alleged

problem by checking available disqualification logs — the prime source recording mailing problems — as well as questioning post office personnel. However, when challenged by ANM to produce the disqualification logs for verification, the Service argued that it would be quite difficult to access the materials at the sites, and that not every site surveyed actually possessed these logs. ANM responded by filing a motion to compel production of the acceptance logs or, in the alternative, to strike portions of Schenk's testimony relating to the logs (the foundation of her study). On March 19, 1998, the Postal Service filed its opposition.

[1019] By this point, the Commission was in the midst of conducting hearings on rebuttal to participants' direct evidence. The Presiding Officer ruled from the bench on the issue. He compelled the Service to produce all available mail disqualification logs for ANM's review in a timely fashion (within six days), with opportunity for ANM and other parties to question Schenk on the materials at a subsequent hearing scheduled for that purpose. Tr. 36/19643-46. The Presiding Officer noted that the Commission would give proper weight to the evidence, however limited. In the alternative, the Service could choose to dispense with the logs and have Schenk's relevant testimony stricken. *Id.* at 19645. The Service chose to produce the available mail disqualification logs.

[1020] As is discussed in detail in the Standard A Nonprofit subclass analysis in Chapter V.C., the Commission ultimately found both the ANM and Schenk studies of limited value. However, while the parties' due process rights were preserved, the Commission believes that had the Postal Service produced the available data sooner, analysts may have been able to conduct a more meaningful analysis of the data, thereby better quantifying the extent of the misallocated nonprofit costs.

[1021] *Access to PMPC Contract Information.* A discovery dispute arose early in this case when UPS sought access to information concerning a contract between the Postal Service and Emery Worldwide Airlines, Inc. (hereafter referred to as "Emery"). The material, relevant to Priority Mail costs, generally consisted of the contract (or contracts) between the Postal Service and its contractors for operation of the Postal Service's Priority Mail Processing Center ("PMPC") network, together with any other

documents bearing on services to be performed and the costs of those services to the Postal Service.

[1022] The Service objected to discovery of the materials, primarily on the grounds that the requested information was confidential business information containing trade secrets of the Postal Service, of the PMPC contractor, Emery, and of other affected business entities which submitted proposals for the PMPC bid. In an attempt to informally resolve the dispute, the Postal Service filed a redacted version of the contract with the Commission as a library reference on August 28, 1997. See Library Reference H-235.

[1023] UPS then sought more detailed information referenced in LR-H-235. The categories of information requested ranged from the general (estimated portion of the total contract price to be paid by the Service that relates to test year operations of the PMPC network) to the highly specific (e.g., estimated amount of aviation and diesel fuel cost to be passed through during the ramp-up period and period 1 of the contract). Most of the information requested pertained to specific cost elements and average prices under the contract.

[1024] UPS argued the information was highly relevant to the proceeding, was similar to other transportation contract information the Postal Service had already produced in the case, and was not proprietary or confidential. UPS claimed that it did not wish to discover information concerning Emery's costs, but only sought information bearing on the costs of the PMPC contract that should be recovered by Priority Mail. According to UPS, the requested information constituted the best evidence of what a substantial portion of Priority Mail costs will be, and is superior to rollforward estimates.

[1025] The Postal Service disputed UPS' arguments. First, the Service disputed UPS' claim that each of its interrogatories was carefully designed to elicit only information related to the Postal Service's costs under the contract. Second, the Service reiterated the seriousness of its concerns, and those of its contractor Emery, regarding the commercial sensitivity of the information sought by UPS. The Service pointed to its unique and financially significant cooperative business venture with Emery and also

argued that it and the Commission are bound, as federal agencies, by the Trade Secrets Act, which bars disclosure of trade secret information by officers and employees of the United States "except as provided by law[.]" 18 U.S.C. § 1905. The Service further claimed that disclosure of the requested information would reveal details of Emery's pricing strategies for the regions included in the PMPC network, with the likely consequence of competitive injury to Emery's commercial interests, given that UPS and Emery are competitors. The Service concluded that should UPS' motion to compel the production of the information be granted, production should be made only under highly restrictive protective conditions which it proposed.

[1026] Emery, though not a participant in these proceedings, filed an opposition to the release of the information. Emery claimed that revealing the redacted portions of the PMPC contract would disclose pricing strategies, which have been found to be exempt from disclosure under the Freedom of Information Act and the Trade Secrets Act by several judicial authorities. According to Emery, the price variations reflected in the contract's redacted pricing schedules reflect Emery's experience in the industry and its analysis of costs and profits on various routes, and disclosing this detailed pricing information would allow UPS, or another competitor, to infer Emery's costs and undercut its bids on other commercial and government air freight contracts. Emery contended that its proprietary and confidential information could be adequately protected if disclosed only under protective conditions that will effectively bar access by UPS competitive decision-makers.

[1027] After considering the arguments, the Commission decided that "most of the requested categories of information evidently are highly relevant to Priority Mail costs[.]" but "the commercial sensitivity of materials responsive to the interrogatories at issue is highly variable." Presiding Officer's Ruling R97-1/62, November 17, 1997, at 9 and 11. Consequently, the Commission ordered the information produced, much of it subject to protective conditions slightly modified from those proposed by the Postal Service. These conditions allow only Commission employees and participants in the proceeding access to the information for use only in the proceeding. Also, no persons involved in

competitive decision-making that might gain competitive advantage from use of the material were to be granted access to it. *Id.* at 12.

[1028] The information in question was the subject of testimony and briefs submitted subject to the same protective conditions. The Commission expects that these conditions should serve as a means of avoiding protected motions practice on access to sensitive business information in future dockets.



# POSTAL RATE COMMISSION

## COMMISSIONERS' BIOGRAPHIES

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**Edward Gleiman (D)** was sworn in as Chairman of the Commission on February 23, 1994 for a term expiring on October 16, 1998. Prior to his appointment as Chairman he served as staff director on the U.S. Senate Governmental Affairs Subcommittee on Federal Services, Post Office, and Civil Service and as a senior policy advisor to Senator David Pryor (D-AR)

**George Haley (R)** currently serves as Vice Chairman of the Commission. Initially appointed as Chairman in February 1990, President Clinton reappointed him to the Commission in November 1993 for a term expiring in October 1998. Prior to assuming public office, Mr. Haley was president of George W. Haley, P.C. in Washington D.C.

**W.H. "Trey" LeBlanc, III (D)** was nominated Commissioner by President Ronald Reagan and confirmed by the Senate on November 24, 1987. On June 8, 1988 he was reappointed for a term expiring in November 1994 and on August 14, 1995, he was reappointed for a term expiring November 2000. Commissioner LeBlanc served as Vice Chairman of the Postal Rate Commission from October 8, 1993 through July 23, 1996. Prior to his appointment to the Commission he was president and general manager of a family-owned lumber company in Baton Rouge, Louisiana.

**Ruth Y. Goldway (D)** was sworn in as Commissioner on April 15, 1998 following her appointment by President Clinton. Her term expires on November 22, 2002. Commissioner Goldway is an experienced public affairs professional with expertise in citizen participation, consumer issues, urban planning issues, education and the arts.

**George A. Omas (R)** was sworn in as a Postal Rate Commissioner on August 8, 1997; his term expires October 14, 2000. Prior to joining the Commission he served in the Office of the Sergeant-at-Arms in the House of Representatives. He served on the Committee on Post Office and Civil Service for approximately 18 years.

# SELECTED RATES USED BY BULK/BUSINESS MAILERS

(Errata)

	<u>Current</u>	<u>USPS Proposed</u>	<u>PRC Recommended</u>
<b>First-Class Letter</b>			
Bank Statement (3 oz.)	78.0¢	79.0¢	77.0¢
Department Store Bill (Non-automation presort)	29.5¢	31.0¢	30.5¢
Utility Bill (Automation 5-Digit)	23.8¢	24.9¢	24.3¢
<b>Post Card</b>			
(Automation 3-Digit)	15.9¢	17.0¢	15.9¢
<b>Priority</b>			
(3 lbs.)	\$4.00	\$4.40	\$4.30
(10 lbs., zone 4)	\$9.30	\$9.75	\$8.75
<b>Express Mail</b>			
Legal Documents (2 lbs.)	\$15.00	\$14.95	\$15.75
<b>Periodicals</b>			
Within County Newspaper (4 oz., carrier route presort, delivery unit entry)	7.0¢	6.9¢	6.6¢
<b>Regular Rate Publications</b>			
Journal of Opinion (3 oz., 20% advertising, average preparation)	19.8¢	20.7¢	20.8¢
Weekly News Magazine (4.8 oz., 43% advertising, highly prepared)	15.8¢	16.5¢	16.2¢
Large National Monthly (11.2 oz., 57% advertising, highly prepared)	26.5¢	27.3¢	27.0¢
<b>Nonprofit</b>			
Small Publication (4 oz., 20% advertising, zone 5, basic)	22.6¢	25.4¢	26.2¢
National Magazine (14 oz., 60% advertising, zone 5, carrier route presort)	29.1¢	30.8¢	31.6¢